

CITY OF PATEROS
Okanogan County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The City Should Maintain Complete And Accurate Accounting Records And Monitor Budgets And Cash Balances

- a. The city's annual financial report, as prepared, did not agree with the supporting ledgers. Our review identified the following errors:

- (1) Transactions were not always posted to the accounting records.
- (2) The annual report contained erroneous fund balances.
- (3) The annual report contained revenues and expenditures that were not supported in the subsidiary ledgers.
- (4) The annual report included figures that were presented under different account codes than were recorded in the ledgers. The clerk had not journalized these changes nor posted all the changes in the ledger.
- (5) The annual report presents a Fund No. 108 which does not exist in the ledger. It appears that the clerk was splitting Fund No. 300 into two funds.

RCW 43.09.230 requires the city to prepare annual reports containing "accurate statements, in summarized form, of all collections made, or receipts received . . . and all expenditures for every purpose."

- b. The city's Current Expense, CIP Loan, Landfill Closure and Garbage Funds had significant negative cash balances in 1992. Since deficit cash balances actually represent unauthorized interfund loans, insolvent funds are benefiting from the financial resources of other solvent funds of the city.

RCW 43.09.210 states in part:

. . . All services rendered by . . . one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

- c. We found that the city's expenditures exceeded appropriations for 1992 as follows:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Spent</u>
NWEC	\$ 5,614	\$ 7,807	\$2,193
Stadium	4,385	5,392	1,007
CIP Loan	- 0 -	3,519	3,519
Water	59,016	62,494	3,478
Sewer	54,528	54,711	183
Garbage	\$47,220	\$51,789	\$4,569

RCW 35A.33.125 states in part:

The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund

. . . .

- d. The city's interfund loans are not being managed in accordance with requirements. As of December 31, 1989, there were outstanding interfund loans that were due to be paid off in 1992, as follows:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance</u>
Current Expense	Sewer	\$ 650
Current Expense	Water	1,800
Current Expense	Arterial Street	2,000
Current Expense	Cumulative Reserve	8,491
Streets	Cumulative Reserve	<u>2,779</u>
Total		<u>\$15,720</u>

There have been no interest or principal payments on these interfund loans since December 31, 1989.

The State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Pt 3, Ch 4, page 1, states in part:

The term of (an interfund) loan may continue over a period of more than one year, but must be "temporary" in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be questioned as a "permanent diversion" of moneys.

The city's Resolution 88-1 sets forth the general requirements to be followed for all interfund loans, and states in part:

Interest payment on loans will be paid at the end of each month until loan is paid in full.

Inaccurate and incomplete accounting records prevent city officials and other users of the financial reports from having sufficient information to make sound decisions regarding the

budget and cash position of the city. In addition, this has significantly increased the city's audit costs.

These conditions occurred because management failed to adequately monitor and correct internal control procedures. Many of the problems in this finding were mentioned to the city in the previous two audit reports.

The financial statements, as presented in this report, have been corrected.

We recommend that:

- a. The clerk account for the revenues and expenditures while ensuring that the ledgers balance with the cash activity.
- b. The city issue registered warrants or approve interfund loans, with appropriate interest, whenever insufficient cash exists in a fund.
- c. The city monitor the budget so that expenditures will not exceed appropriations.
- d. The city pay in full the interfund loans that are more than three years outstanding and manage and account for the remaining interfund loans as required by the BARS manual.

2. The City Should Deposit All Moneys Collected

In 1992 and 1993, the city accepted grants from a non-profit community foundation on behalf of the City of Pateros Beautification Committee, a local community improvement group which is not part of the city. The grants were for community improvements, and the city had agreed to ensure that the funds were spent properly by the committee.

Our audit disclosed that checks in the amounts of \$1,000 in 1992 and \$400 in 1993 were endorsed by the city clerk, and handed over to the committee, rather than being deposited into the city's accounts. Donations made to or through the city are public moneys which must be kept in the custody of the city's treasurer.

Failure to deposit all funds belonging to the city is in violation of Article XI, Section 15 of the Washington State Constitution which states in part:

All moneys . . . collected for the use of any . . . city . . . shall be deposited with the treasurer or other legal depository to the credit of such city . . .

In addition, RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him with the treasurer of the taxing district once every twenty-four consecutive hours.

The lack of control by the city results in decreased accountability over public funds, and an increased risk that errors or irregularities could occur and not be detected.

We recommend that the city deposit all moneys collected in a legal depository of the city.